

April 19, 2005

Members of the Memphis City Council and Citizens of Memphis:

I am honored to present to you the proposed annual budget for the City of Memphis for the fiscal year beginning July 1, 2005 and ending June 30, 2006.

I'd like to begin by expressing appreciation to the members of our Memphis City Council for their dedicated service. Fiscal Year 2005 has been a most challenging time in the life of our City. As elected officials, we have not always agreed on methods of achieving specific goals, however, I am convinced that we all share a positive common vision for Memphis -- to maintain a progressive City that enhances the quality of life for our citizens and a positive climate for businesses. Together, we will continue to build on our accomplishments and help shape the future of Memphis in ways that contribute to our growth and prosperity.

Fiscal Challenges

Over the past months, you've heard me speak at length about our fiscal challenges. The impact of a slow economic recovery; increased security measures due to the September 11, 2001 terrorist attacks; a straight-line windstorm that traumatized us in 2003; a reduction in state-shared revenues, and other factors beyond our control have collectively contributed to a revenue shortfall.

As a leader and longtime citizen, one of the most difficult times for me was during the recent layoff of City employees. In my 13 years as Mayor of Memphis, there had not been a single layoff and it was an extremely tough decision to make.

Locally, we're still experiencing the effects of a slow economic turnaround that our nation has endured since the late 1990s. National labor market conditions remain sluggish. In post-war history, it has never taken this long to regain jobs lost during a recession. Oil prices have escalated. Businesses and municipalities from coast to coast have implemented layoffs – *progressive* and *well-managed* businesses and municipalities.

I'm giving you these facts to remind you that Memphis is not alone in this struggle. Revenue shortages are evident in cities across America and major cost-cutting measures are being implemented to help balance budgets.

As a result of these issues, we're having to manage our City in an environment of declining revenues, and at the same time, deliver those essential services that citizens expect from us. However, despite the fiscal challenges we're facing, optimism prevails. We are determined to rise above our setbacks and continue to do the best job possible for the citizens of Memphis.

I believe one of the best ways to deal with fiscal challenges is to focus clearly on our priorities – and to support those priorities with effective strategies and a sound budget.

Our Priorities

- Public safety is at the core of our priorities and we must continue our strategic efforts to make our neighborhoods safer.
- Economic growth is another major priority. I want Memphis to foster economic growth as a basis of continued support of education. As our City grows economically, we will be in a better position to provide more educational funding.
- It is critical that we maintain key public services that our citizens depend on.
- We must continue to reduce spending and consistently work to make our government more efficient.

These priorities reflect the needs and desires of our citizens and have therefore shaped my administration. On behalf of the citizens of Memphis, I am presenting an Operating Budget of \$517.7 million and a Capital Improvement Program Budget of \$1.9 billion. The CIP includes \$261.9

million for Fiscal Year 2006, with approximately \$173.3 million funded by general obligation bond proceeds.

I am also proposing a property tax increase of 54 cents. In summary, here's what the property tax increase will mean to our City:

- \$27 million will help restore service levels to where they were prior to FY05.
- \$10 million will be used to replenish our Fund Balance to help us maintain our AA bond rating.
- \$2 million will allow us to accrue an employee payroll reserve
- \$4 million will enable us to fund the FY05 salary increase at 1.5% for City employees.
- 3% raises will be provided for City employees during FY06.
- \$3 million will be used to establish other post-employment benefits (as required by the Governmental Accounting Standards Board).

With regard to the important day-to-day public services for citizens, our Emergency Medical Services system continues to be a vital component of the Memphis Fire Department. The City has completed a study of its EMS system and determined that we should develop a strategic plan to address the needs of our community.

We have a three-year plan that will require \$1.2 million in FY06, \$1 million in FY07, and \$1.5 million in FY08. Thereafter, the city will have an efficient EMS delivery system, designed to meet the needs of Memphis citizens and visitors.

Our Capital Improvement Program is reviewed by the administration based on need, impact on the area, quality of life in our neighborhoods, and the general economic climate of our City.

The Fire Division's capital budget includes funds for:

- Replacing pumpers and aerial trucks
- Maintaining ongoing program for fire station repairs
- Implementing fire station replacement projects
- Maintaining \$3.5 million five-year personal protective equipment plan

The Police Division's capital budget includes funds for:

- Expanding the Vehicle Storage Facility that will provide space for Crime Scene and Property Storage
- Expanding Police precincts, including Traffic Precinct, Hickory Hill Precinct, West Precinct Relocation and Downtown Precinct
- Renovating the old Police Headquarters building at 128 Adams
- Constructing a 9-1-1 facility

The Parks Division's capital budget includes funds for:

- Improving neighborhood parks and playgrounds throughout the City
- Making structural improvements to Liberty Bowl Stadium and improving preventive maintenance
- Making improvements to community centers, including Riverview, Charles Powell, Whitehaven and Gaisman
- Planning for new aquatic centers at Charles Powell and Glenview
- Improving existing aquatic and tennis facilities

The Public Works Division's capital budget includes funds for:

- Paving 227 lane miles of streets each year for five years
- Maintaining streets and bridges, and making major improvements to roads and drainage systems
- Ensuring Americans with Disabilities Act (ADA) compliance regarding wheelchair ramps on corners at intersections throughout the city
- Implementing safety improvements such as street modifications and sidewalk installations in identified school zones
- Repairing and replacing sewer infrastructure, and improving treatment plants (Sewer Fund)

The budget for Housing and Community Development includes a \$36.1 million loan to the Memphis Housing Authority for improvement, construction and revitalization within targeted neighborhoods.

These services and improvements comprise our proposed budget for FY06 -- a budget that represents the priorities of our citizens and at the same time, eliminates the revenue shortfall.

Highlights of Accomplishments

Despite our challenges, Memphis has many reasons to be proud. Signs of progress and new vitality are evident all around us. We have many good stories to tell.

Downtown Memphis is booming. The downtown area has undergone a renaissance resulting in \$1.7 billion in new private investments. Today, as a result of our efforts, Memphis is the centerpiece of community renewal and source of pride for citizens.

I meet people every day who tell me how much they enjoy having superb places to visit downtown with their families and friends.

In 1992, the City's Fund Balance was only \$3.5 million. Today, despite our financial setbacks, our balance is \$26 million. Moreover, we maintain a favorable AA bond rating from the majority of bond-rating agencies.

We're also consistently looking for alternative revenue sources, such as the Storm Water Fee. And we're changing the Business Delivery Model which entails linking our government services with those of other government agencies, possibly in other municipalities, to help cut costs.

In 2004, more than 78,000 new jobs were created in Memphis and \$12.2 billion in private capital was invested. Also, more than 30,000 persons were removed from Memphis' poverty rolls during the first five years of the Memphis 2005 Economic Development Plan.

We're also excited about the housing market. Lenox Homes recently sold 71 lots within a record-breaking three-week period. This is another sign of growth and vitality in our City.

We are pleased with the outstanding progress we're making toward revitalizing our neighborhoods through the "Decade of the Neighborhood" program. Improvement initiatives in the New Chicago, University Place, College Park, Hawkins Mill, Ford Road, and Fowler Homes areas are currently underway. Additionally, over the past 13 years, we've helped approximately 12,500 families obtain home ownership through various assistance programs.

Sewer rates have increased only once in the past two decades, making Memphis' sewer fees the lowest of the 250 largest cities in the United States.

We can also be proud of our infrastructure which is among the best in the country. If you've traveled recently to some of the other urban areas around the country, you know that we have good reasons to be proud.

Last fall, we took pride in opening the doors to the Memphis Grizzlies' new home, FedEx Forum -- a world class, state-of-the-art arena that was constructed on time and within budget.

The phenomenal Stax musical legacy was revived with the construction of the Stax Museum and Music Academy, giving visitors another world-renowned landmark to enjoy.

We've also seen significant developments over the past few years with regard to major corporations. Federal Express erected its world headquarters; United Postal Service opened a major hub; St. Jude experienced a billion-dollar expansion and employment growth; Smith & Nephew expansions have totaled more than \$50 million; Medtronic Sofamor Danek corporate headquarters and new research facility created more than 500 new technology jobs.

We opened new branch libraries in Whitehaven and Cordova and expanded the Hollywood Branch.

Each day we come to work, we recognize that we are here to serve more than 650,000 people who want the best for their families and community. That's why our city's public servants will not be deterred by challenges; we are determined to continue moving this city forward. I extend special thanks to our City employees who provide ongoing quality services to our citizens.

Conclusion

In closing, I'd like to issue a special appeal to the citizens of Memphis. This is a City where the faith, determination, and values of people representing various races, socio-economic levels, and backgrounds have helped to build a remarkable City. However, we need more of our citizens to take an active role in making Memphis one of the nation's best places to live and work. I encourage every citizen to find ways to help improve those areas that need

special attention. We can do this by volunteering to help our youth and elderly citizens; participating in Neighborhood Watch programs, and taking a more active role in the education of our children and teens. If we each focus on being “One Memphis -- Moving Forward,” we can overcome our challenges together. I am truly grateful for your support.

Sincerely,

A handwritten signature in black ink, appearing to read "Willie W. Herenton", with a long horizontal flourish extending to the right.

Dr. Willie W. Herenton, Mayor
City of Memphis



THE CITY OF MEMPHIS, TENNESSEE

Memphis is located on the east bank of the Mississippi River in the southwest corner of Tennessee. Memphis is the State's largest city and the county seat of Shelby County. The corporate limits contain 343 square miles, representing 45 percent of the total land area of Shelby County. Memphis ranks as the 18th largest city in the nation. The 2004 population was 665,656 according to the State of Tennessee Department of Economic and Community Development.

GOVERNMENTAL STRUCTURE

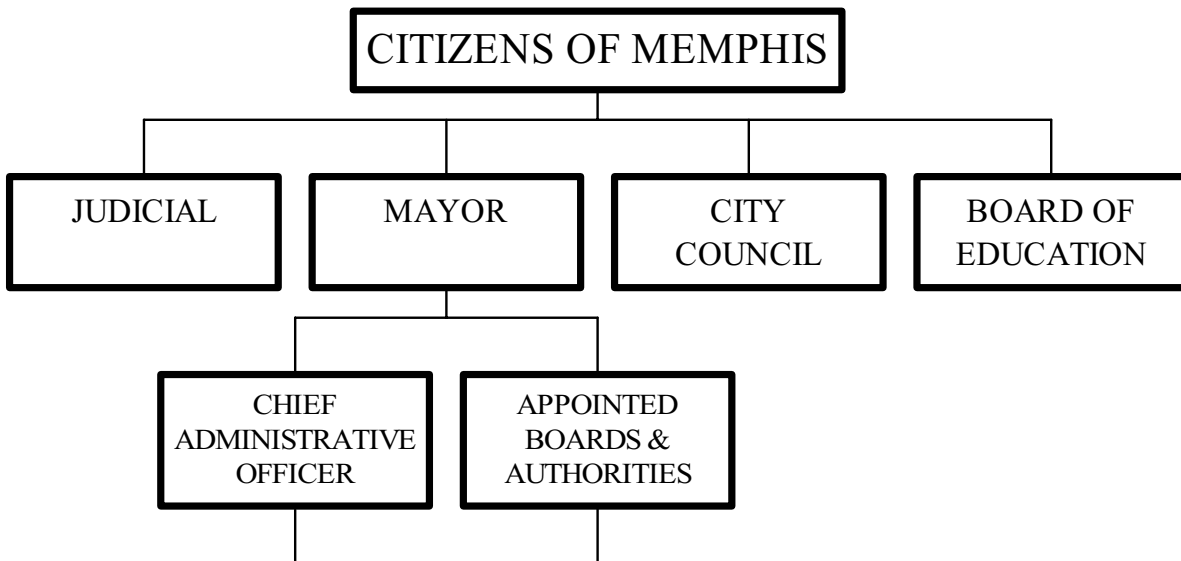
The City of Memphis was incorporated as a city in 1826. Memphis operated under a commission form of government from 1909 until January 1, 1968. At that time, a Mayor-Council form of government was established. The City Council is composed of thirteen representative citizens who are elected for four-year terms. Six council members are elected at large in multi-member districts, which territorial boundaries are determined by dividing the City in half with each multi-member district consisting of three (3) council member numbered positions. The remaining seven (7) council members are elected by single member districts, numbered 1-7. The Council elects its own chairperson, exercises legislative powers, approves budgets and establishes the tax rate. The Mayor is elected to a four-year term. The Mayor carries out the policies of the City and appoints City board members, officers and division directors, with Council approval. The City's operating and service departments are organized under the Chief Administrative Officer who is appointed by and serves at the pleasure of the Mayor. The Mayor may veto action of the City Council, but a simple majority can override any veto.

The Chief Administrative Officer, under the direction of the Mayor, coordinates the activities of all administrative divisions of City government. He acts as liaison officer between the Mayor and all divisions, bureaus, boards, commissions and authorities. The directors of all divisions report to the Chief Administrative Officer on administrative procedures.

The major administrative divisions of the City include: Engineering; Executive; Finance; Fire Services; General Services; Housing and Community Development; Legal; Parks; Human Resources; Police Services; Public Works/Sanitation; Public Services and Neighborhoods; and the Office of Planning and Development.

The Mayor is responsible for all city appointments to boards, which serve the City. These include the boards of the Memphis Light, Gas and Water Division (MLG&W); Memphis Area Transit Authority; Memphis Housing Authority; Center City Commission; Memphis & Shelby County Convention Center Complex; Memphis Brooks Museum of Art; Memphis & Shelby County Building Code Advisory Board; Memphis & Shelby County Public Library Board. The Mayor appoints five of the seven members of the Board of the Memphis & Shelby County Airport Authority. Most of the members of these boards are private citizens giving their time to the City without compensation.

CITY OF MEMPHIS, TENNESSEE ORGANIZATIONAL CHART



- City Attorney
- Engineering
- Executive
- Finance
- Fire Services
- General Services
- Housing and Community Development (MHA)
- Human Resources
- Library Services
- Office of Planning and Development
- Parks
- Police Services
- Public Services & Neighborhoods
- Public Works

- Memphis Area Transit Authority
- Memphis Light, Gas and Water
- Memphis and Shelby County Airport Authority
- Memphis Light, Gas and Water Retirement and Pension System

(1) The Board of Education and the appointed boards and authorities for Memphis Area Transit Authority (MATA), Memphis Light, Gas and Water (MLG&W), Memphis and Shelby County Airport Authority, and Memphis Light, Gas and Water Retirement and Pension System are legally separate from the primary government. The budget for MATA is in the Grants & Agencies section of this budget book. The budgets for Board of Education, MLG&W, Memphis and Shelby County Airport Authority, and MLG&W Retirement and Pension System are not presented in this document.

BUDGETING AND APPROPRIATIONS PROCEDURES

The financial plans of the City are included in the annual capital and operating budgets. These budgets project all receipts and disbursements, and present the level of governmental services and the method of distributing costs to the various segments of the community through the collection of taxes and fees.

The Council has final responsibility for approving certain program and fiscal policies, approving the annual Operating Budget and the Capital Improvement Program, and setting the tax rate and fees for services. The Administration is responsible for proposing programs and recommending funding levels to the Council and for implementing service programs in accordance with established goals and objectives.

Operating Budget The Annual Operating Budget is submitted to the Council approximately 90 days prior to the end of the fiscal year in April. At least 3 to 4 weeks prior to the end of the fiscal year, the City Council approves the Operating Budget.

Capital Budget The Capital budget and Capital Improvement Program are prepared annually to present the capital expenditures planned for each of the next five fiscal years. The total costs of each project and the sources of funding (local, state, federal and private) required to finance each project are estimated. The Capital Improvement Program is prepared and recommended by the Mayor and presented to the Council for adoption. The Capital Improvement Program authorizes in detail the capital expenditures to be made or incurred in the next five fiscal years and is then adopted by the council concurrently with the Capital Budget.

Additional authorizations for each capital project in the Capital Budget must precede the expenditures of construction funds. The Capital Budget must be in full conformity with that part of the Capital Improvement Program applicable to the fiscal year which it covers.

The timetable for approval of the Capital Budget and Capital Improvement Program closely parallels that of the Operating Budget.

The City of Memphis operates on a July through June fiscal year and is required by City Charter to submit and have approved a balanced budget each fiscal year.

The budget process is a series of reviews and analyses of budget requests submitted by the various city departments. The staff of the Budget Office, each division director, Chief Administrative Officer, Mayor, City Council and the public are all involved to ensure that the approved budget is reflective of the needs and desires of the entire community. In addition to the operating budget that is required to be adopted by July 1 each year, the City Council adopts a five-year Capital Improvement Program.

The adopted budget ordinance provides for budgetary control at program levels and said budgets cannot be exceeded without the approval of the City Council. Strict budgetary compliance is maintained by an automated accounting system to assure effective fiscal management and accountability. All requests for purchases or payments are checked by the budgetary control system to assure that funds are available. Purchase Orders and contracts are encumbered prior to their release to vendors. Those Purchase Orders and contracts that exceed appropriated amounts cannot be executed until additional appropriations are made available, either by transfer of existing appropriations or by a resolution granting additional appropriations by Council. The system controls are maintained at the program levels and are basically set up within Personnel, Operations and Maintenance and Capital categories.

BUDGET DEVELOPMENT PROCESS

The Budget Office uses financial data provided by city divisions to facilitate the review and approval of the Operating and Capital Improvement Budgets. This service center is responsible for ensuring the operation of all divisions within financial guidelines established by Administrative policy and City Council legislation. The Budget Office is also responsible for forecasting all general revenue for the City.

The Operating Budget is established annually. The process begins in October for the following fiscal year. Divisions are asked to enter Personnel, Materials & Supplies and Capital outlay into the Budget System over a three week period. The information is then analyzed and divisions are consulted with respect to noticeable budgetary changes. It continues in January with the second quarter forecast and revision of next year's operating budget. Administrative hearings are held in March to examine each service center's budget and to make necessary revisions. After finalizing any necessary revisions, the Operating Budget is presented to Council in April. The Council then conducts its own hearings to scrutinize the budget. The process ends in June with Council's approval of the budget and the June loading into the Accounting system of the new budget. Funding approvals are limited to one fiscal year, with surpluses or deficits corrected through fund balance.

The Capital Improvement Program (CIP) is a five-year plan for capital allocations, which is reviewed annually for priority and project changes and additions. This plan examines each project in which the City participates and specifies the source of financing for the projected expenditures. The process for the CIP also begins in October with the divisions entering their requests into the Budget System. The projects are then analyzed by the Budget Office and administrative hearings are held in January with each division to assist them in justifying their requests. After finalizing revisions, the CIP Budget is presented to Council in April. The Council then conducts its own hearings to scrutinize the budget. The process ends in June with Council's approval of the budget and the June loading into the Accounting system of the new budget.

The Council adoption of the CIP authorizes a portion of engineering, architecture, land acquisition and development costs through administrative appropriation. Funds for construction costs, equipment, and acquisition contracts are subject to additional authorization by the Council. Prior and current CIP allocations will remain in the plan until the Division in charge of the project or Council determines that the project is completed or is not needed.

The Budget Office ensures operation with the legally established financial guidelines by monitoring the budgets and reviewing mid-year changes to the budget. The Budget Office monitors the CIP by using tracking reports, which are usually completed during budget submission and may be requested at various intervals during the year. The Budget Office also monitors the operation budget through forecasts from user service centers. This enables the Budget Office to project citywide surpluses and deficits. These forecasts help the Administration to determine which service centers need additional assistance in planning or funding. Both CIP and Operating Budgets change during the fiscal year (mid-year changes) when user service centers process transfers and resolutions. The Budget Office reviews and approves resolutions and transfers and forwards them to the Finance Director, City Attorney, CAO, Mayor's Office, and Council for legal actions.

Due to changes in the yearly Budget Submission process, both Operating and CIP, the Budget Office staff provides training and reference manuals, which are available to division personnel responsible for the budget submission. Documentation of the past years' budgets is available for review in microfiche, in the Annual Report, and in year's Appropriation Ordinance.

BUDGET CALENDAR

July – August

Prior Year Goals, Objectives and Performance Measures (GOPMs) 4th Quarter & Year End
Total Actuals due
Budget Policies developed for current year forecast and next year's budget request
Divisions develop Key Performance Indicators (KPI) for next Budget Year

September

Initial revenue projections for current year and next year
Final personnel and supplies/services cost assumptions prepared
Budget training material published

October

Operating Budget training sessions with divisions for 1st quarter forecast and next year's budget
Memphis Poll conducted
Capital Improvement Program Training & Preparation
Current Year 1st Quarter KPI Actuals reviewed

November

Divisions submit 1st Quarter Operating and next year's requests to Budget Office
Divisions submit CIP to Budget Office

December, January

Revenue projections updated for current year and next year
Budget meeting with divisions for 2nd Quarter forecast and next year's budget request
Review of Divisional KPIs conducted for next Budget Year
Current Year 2nd Quarter KPI Actuals reviewed

February, March

Operating Budget/CIP Administrative hearings with divisions
Operating Budget/CIP review with Mayor and CAO
Final recommendations made and budget documents prepared

April

Operating Budget/CIP is presented to the City Council on the second Tuesday in April
Current Year 3rd Quarter KPI Actuals reviewed

May, June

Budget hearings with the City Council Operating Budget and CIP Committee
Property Tax Rate set and adopted and tax bills prepared by Treasurer's Office



OPERATING BUDGET PROCESS

The Operating budget process is a continuous cycle. Each division is responsible for completing a current year forecast and next year's budget request. Once this is done and data is input into the budget system, the Budget Office generates line item forecast reports and submits them to each division. Summaries are presented to the Director of Finance, the Chief Administrative Officer, and the Mayor.

This process is performed twice during the fiscal year, once in October and in January. The need for accuracy and thoroughness in the preparation of the forecast and budget requests cannot be over-emphasized. During the administrative hearings in March, the Mayor uses the data obtained through this process to determine each division's spending trends and decides if any revisions are necessary to meet the City's needs.

After the hearings are completed, the Budget Office finalizes the Proposed Operating Budget Book, which the Mayor submits to the Council. Each division is scheduled to have Council Committee hearings in April and May. The Operating Budget must be approved by a majority of the full Council. Also, in April, the Budget Office completes an internal forecast for the current year only. This is used to determine the year-end spending for each service center and any projected deficits.

MID-YEAR CHANGES TO THE OPERATING BUDGET

The Operating budget is a guideline or plan of operation for each division. However, budget changes may be necessary during the fiscal year (for example, new grant monies can be made available or changes in a service center's personnel can disrupt an otherwise successful budget). When unforeseen circumstances arise, changes can be made to the budget two ways: Intra-Category Line Item Transfer (Black Line) or Inter-Category Line Item Transfer (Red Line).

Intra-Category Line Items Transfers

Intra-category line item transfers, called administrative transfers, are used to transfer budgeted funds from one expenditure to another as long as the transfer is within the same legal level and does not exceed \$50,000 between categories or a cumulative total of \$100,000 for the year.

Administrative transfers are necessary when transferring small amounts of funds within a legal level, such as moving \$1,000 from document reproduction to City Hall printing within a service center. The Request for Transfer of Budget Appropriation Intra-Category Line item Transfer must be completed in full including a justification of the transfer. The explanation should address why surplus funds are available and why funds are needed. This form must be signed by the division director and forwarded to the Budget Office for approval.

Inter-Category Line Item Transfers

Inter-category line item transfers, called council transfers, are used to transfer funds from one legal level to another or when the transfer exceeds \$50,000 between categories or a cumulative total of \$100,000 for the year. The council transfer form is very similar to the administrative form. Since the changes require approval of the City Council, each transfer must be accompanied by a resolution and a Council Agenda Check-Off Sheet.

CAPITAL IMPROVEMENT PROGRAM**INTRODUCTION**

The Capital Improvement Program (CIP) is a five-year planning tool for urban growth and development. It outlines the schedule of public improvements and the associated costs. The CIP lists each proposed capital project to be undertaken, the year in which it will be started, the amount to be expended in each year, and the proposed method of financing. Over the life of the program, the plan will be reviewed and revised on an annual basis.

The CIP consists of projects that provide long-term improvements to the City and its infrastructure. An initial project is usually comprised of one of the following items: land, building, and/or equipment. These items can generally be defined as eligible on the following basis:

LAND acquisition and/or development expenditures are eligible as capital costs regardless of whether they are purchased in connection with future economic development.

BUILDING renovations, additions to existing structures or new construction costs are capital expenditures. Inclusive in these costs may be feasibility studies and architectural/engineering designs.

EQUIPMENT or machinery purchases that are essential to the initial operation of a project are included within that scope of the project's costs.

The replacement of equipment that is essential to the operation of a facility can be considered a capital project provided its cost is \$5,000 or more and its useful life is greater than (5) years.

PURPOSE

The Capital Improvement Program allows the projection of future needs and enables the City to develop a financial blueprint to accommodate the growth of its infrastructure. From this long-term planning process evolves a capital project priority system that coordinates public needs and resources with the availability of funding.

The thorough preparation required in formulating the Capital Improvement Program allows the City to forecast the impact of each project on the City's Annual Operating Budget. For example, the construction of a project may be financed through the CIP; however, the staffing and operations may be funded through the operating budget. Therefore, timing of facility construction and its subsequent operation enables the City to anticipate future expenditures and revenues.

The publication of the Capital Improvement Program supplies information to various groups interested in the future development of Memphis. The CIP outlines the City's intent for Federal and State agencies that provide grant dollars for specified projects. Private investors can preview the attractiveness of the City and its assets as related to investments in municipal securities. Developers are made aware of new projects and may plan accordingly. Finally, individual taxpayers, neighborhood groups and other civic organizations are familiarized with the City's plan for future development and the effects such changes will make in their lives.

CAPITAL IMPROVEMENT PROGRAM PROCESS

OVERVIEW

The Finance Division coordinates the full spectrum of budget activities for the divisions as directed by the Chief Administrative Officer and Mayor. The Budget Office provides the divisions with pertinent financial and budgetary data and opens the Budget System for input. The information submitted by the divisions is used by the Budget Office to prepare an overall projection of the City's needs and resources.

Building Design and Construction reviews the scope of all requests involving construction or major renovations to City owned structures. Debt Management studies the fiscal feasibility of the projects submitted for future funding needs.

Upon completion of the annual CIP request, administrative hearings are held with the Mayor, the Chief Administrative Officer and staff, the Director of Finance, the Budget Office Manager and staff, Building Design and Construction, and staff from the division being reviewed. This group reviews the proposed fiscal constraints. A major consideration at the time of the hearings is the extent to which these fiscal proposals will impact the City's debt service requirements relative to the benefits provided to the City.

When the fiscal analysis is complete and recommendations formalized, the proposed CIP is sent to the Mayor for review and approval. The Mayor then presents the proposal to the Council. The City Council's CIP Committee schedules legislative hearings that provide a forum for the review of capital requests on an individual project basis. The City's five (5)-year projection of capital expenditures is carefully studied, revisions made as needed, and then presented to the full Council membership for adoption.

The CIP establishes the direction for future growth and balances forecasted tax revenues with the City's ability to assume additional debt service obligations. When the full Council adopts the proposed Capital Improvement Program, that year's process of analysis, revision, and implementation is complete.

TRANSFERRING ALLOCATIONS/APPROPRIATIONS

Once the CIP has been adopted by the City Council, the data is loaded into the City's Accounting System. During the life of the project, it may be necessary to transfer funds to aid in the completion of the project.

Initially, the CIP revenues/expenses report is checked for funds verification. After it is determined that the funds are available, two methods are used to transfer or establish allocation and/or appropriations.

The Capital Improvement Budget Request for Administrative Transfer or Appropriation form (Black Line) is used to:

1. Record the initial appropriation of the planning lines (A/E, land development, land acquisition) upon the adoption of the CIP by the City Council.
2. Transfer allocations and appropriations within planning lines or within construction lines (contract construction, latent conditions, and other costs).
3. Transfer allocations from "cover-line" project planning lines to the new project planning lines and the appropriation of the lines.

The Capital Improvement Budget Request for Council Transfer and Appropriation form (Red Lines) is used to:

1. Appropriate all construction lines.



2. Transfer allocations and appropriations between projects.
3. Increase/decrease allocations or appropriations of a project.

(*Please note, the red line and black line form serve the same purpose. The color and title of the form simply identifies whether the allocation or appropriation is administrative or council related.)

In order to transfer or establish a Council appropriation, the following items must be prepared: Resolution, Council Agenda Check-Off Sheet, and Council Transfer form and/or Appropriation by Council form (red line).



BUDGET RESOLUTION REVIEW PROCESS (Operating & CIP)

RESOLUTIONS

A resolution is a document asking the City Council to amend the Appropriation Budget Ordinance or Capital Improvement Budget. A resolution is written in two sections: the "WHEREAS" section and the "RESOLVED" section. The WHEREAS section explains why the change is necessary, what the money will be spent for, and why funds are available and where the funds will come from. The RESOLVED section includes the statements that actually change the Budget Ordinance.

A resolution details the action requested by Council and should answer one or more of the following questions:

- What is the purpose of the change?
- Why is the change necessary?
- What will the funds be used for?
- Why are funds available?

A resolution shall be written in clause format. Each clause in the preamble shall begin with the word "WHEREAS", include a brief statement answering one or more of the above questions, and continue with "AND," an adopting clause. "NOW THEREFORE BE IT RESOLVED", shall summarize all information as requested regarding changes to the City Resolution. The adopting clause may be followed by several additional clauses. (See page 9-18 for details on how to complete a resolutions.)

After finalizing a Resolution, a Council Agenda Check-Off sheet must be prepared which summarizes the Resolution and includes all organizational data, account numbers, and dollar amounts.

COUNCIL AGENDA CHECK-OFF SHEET

The Council Agenda Check-Off Sheet must accompany all documentation that goes before Council. The originating division/service center must complete the form and have it signed by the appropriate service center manager and division director.

Routing and Handling of Transfers

A. Administrative Transfers and Appropriations

- Division Directors
- Budget Office
- Comptroller's Office

B. Council Transfers and Appropriations

The budget resolution package (Council Agenda Check-Off Sheet, original resolution and 13 copies, Red Line forms- including appropriate signatures from the division director) should be forwarded to the Budget Office one week before the Council Committee meets. From there the documents will be forwarded as follows:

1. Director of Finance and Administration



2. City Attorney
3. CAO
4. Mayor's Office – Resolutions appropriating or transferring CIP funds must be received by the Mayor's Office by noon on Thursday for Council Committee action on the following Tuesday.
5. Council Committee reviews monetary transfers and makes recommendations to the full Council.
6. The Mayor's Office forwards the resolution to Council Records after the Council Committee recommendation (s) are made. Then the resolutions are placed on the Council Agenda for consideration by the full Council on the following Tuesday.
7. Council's approval of the resolution gives legal authority to amend the fiscal year's budget.

Resolutions may be returned to the originating division/bureau for corrections at any time during the process.

The need for accuracy in the completion of all appropriate forms and recognition of time constraints is crucial in processing transfers. The Budget Office may be contacted for further assistance and/or information.

FISCAL POLICY

Policies for Fiscal Control:

- Balanced Budget. As required by law, it is the fiscal policy of the City of Memphis to balance the budget. No deficit may be planned or incurred.
- Financial Management. The City will manage and account for its Operating and Capital Budgets in accordance with principles and standards set forth by the Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP).
- Accounting Method (Basis of Budgeting). The City will maintain its accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable and expenditures recorded when services or goods are received and the liabilities incurred. Accounting records for proprietary fund types and similar trust funds will be maintained on the accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt of payment of cash. For governmental-type funds, revenues and expenditures are also monitored internally on a “budgetary” basis to ensure compliance with legal limitations. The City budgets on a “modified accrual plus encumbrances” basis, which treats encumbrances as expenditures at the time the funds are encumbered.
- Internal Accounting Controls. The City will develop and manage its accounting system to provide reasonable assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. “Reasonable assurance” recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.
- Audits. The City will ensure the conduct of timely, effective, and periodic audit coverage of all financial records and actions of the City, its officials and employees in compliance with local, State, and Federal law.

Policies for Revenue and Program Funding:

- Revenue Projections. The City will estimate revenues in a realistic and conservative manner in order to minimize the adverse impact of a revenue shortfall.
- Property Tax Rates. The City will maintain stable tax rates that avoid wide annual fluctuations as economic and fiscal conditions change.
- Intergovernmental Revenue. The City will aggressively seek a fair share of available State and Federal financial support unless conditions attached to that assistance are contrary to the City’s interest.
- Cash Management. The City will maintain sophisticated and aggressive cash management and investment programs in order to achieve maximum financial return on available funds. Cash will be pooled and invested on a daily basis at best obtainable rates; investments will be generally limited to federal debt instruments, fully collateralized repurchase agreements, or highest quality bankers’ acceptances and commercial paper.

Policies for Expenditures and Allocation of Costs:

- Contents of Budgets. The City will include in the Operating Budget all programs and facilities not specifically eligible for inclusion in the Capital Improvement Program.
- Expenditure Growth. The City will budget expenditures for necessary and essential public purposes only, holding expenditure growth to levels consistent with realistic prospects for the community's ability to pay, both in the upcoming fiscal year and in the ensuing years as well.
- Allocation of Costs. The City will balance the financial burden of programs and facilities as fairly as possible between the general taxpayers and those who benefit directly, recognizing the common good that flows from many public expenditures, the inability of some citizens to pay the full costs of certain benefits, and the difficulty of measuring the relationship between public costs and public or private benefits in some services.
- Expenditure Reduction. The City will seek expenditure reductions whenever possible through efficiencies and through the reduction or elimination of programs, policies, and practices which have outlived their usefulness.
- Public Investment in Infrastructure. The City will, within available funds, plan and budget for those facilities and infrastructure necessary for a healthy economy and for support of public programs determined to be necessary for the quality of life desired by its citizens.
- Procurement. Toward the most cost-effective procurement of goods and services, the City will purchase them, directly or indirectly, through a competitive process except when an alternative method of procurement is specifically authorized by law.

Policies for Debt Management:

- Debt Management. The City will minimize debt service costs through the judicious use of available debt instruments, consistent with the desirability of maintaining stable current tax rates and distributing the costs of certain long-lived facilities among all users, present and future.
- Debt Incurrence. The City will limit the amount of new general obligation debt it will plan for and issue in any six-year period to that which can be supported by the community under conservative fiscal and economic projections and to that which will maximize the likelihood of sustaining the City's "AA" credit rating.

Policies for Governmental Management:

- Productivity. The City will measure and seek to increase the productivity of City Programs in terms of quantity and quality of services relative to resources expended, through program evaluation, employee training and incentives, and other strategies.
- Risk Management. The City will control its exposure to financial loss through a combination of commercial and self-insurance; will self-insure against all but highest cost risks; and will aggressively control its future shares among agencies through loss history.



- Employee Compensation. The City will seek to provide equitable pay among comparable jobs and City agencies and between employees in collective bargaining units and those outside of such units, and will seek to contain the growth of compensation costs through organizational efficiencies and productivity within the workforce.
- Pension Funds. The City will, through judicious management and diversified investment, assure the security of the assets of the Employees Retirement System toward its solvency and regular benefits for future as well as present retirees and will continue to evaluate the accrued liability and adjust the funding rate when necessary.
- Surplus Property. The City will maximize the residual value of land parcels or buildings declared excess to current public needs through efforts at public reuse, lease to appropriate private organizations, or sale toward returning them to the tax base of the City. Deposition of goods that have become obsolete, unusable, or surplus to the needs of the City will be made through bid, auction or other lawful method to the purchaser offering the highest price except under circumstances as specified by law.
- Resource Management. The City will seek continued improvement in its budgetary and financial management capacity in order to achieve the best possible decisions on resource allocation and the most effective use of budgeted resources.

Governmental Accounting Overview

Government accounting has many similarities to commercial accounting. For example, governmental accounting uses the double-entry system, journals, ledgers, trial balances, financial statement, internal control, etc. Differences arise due to the objectives and environment of government. The major differences include:

- 1) The absence of a profit motive, except for governmental enterprises, such as utilities
- 2) A legal emphasis which involves restrictions both in the raising and spending revenues
- 3) An emphasis of accountability or stewardship of resources entrusted to public officials
- 4) The recording of the budget in some funds
- 5) The use of modified accrual accounting in some funds

Fund Accounting

There are three principles that deal specifically with fund accounting. These principles cover 1) Definition of a fund 2) Types of funds 3) Number of funds.

A fund is defined (GASB Codification) as: a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

There are now seven funds which are classified into three general types:

Governmental Fund

- 1) General
- 2) Special Revenue
- 3) Capital Projects
- 4) Debt Service

Proprietary Funds

- 5) Internal Services
- 6) Enterprise

Fiduciary Funds

- 7) Trust & Agency

There are two account groups: 1) **General Fixed Asset Account Group (GFA)** 2) **General Long-Term Debt Account Group (GLTD)**. These account groups are not funds because they do not have fiscal authority over resource inflows or outflows.

In the governmental funds, the objective is to provide services to the public. All of these funds are expendable, i.e., they are not concerned with preserving capital or measuring "net income." Government funds are concerned with the availability of resources to provide services, and the emphasis is on working capital flows. Usually, only current assets and current liabilities are accounted for in the expendable funds (four governmental funds plus expendable Trust and Agency funds). Fixed assets and long-term liabilities of governmental funds are mostly accounted for in separate self-balancing account groups. The proprietary funds use accounting and reporting techniques similar to commercial enterprise. The accounting and reporting techniques of fiduciary funds depend on whether the fund is expendable or nonexpendable. Expendable Trust and Agency are accounted for like government funds, while Nonexpendable and Pension Trust Funds are accounted for like proprietary funds.

Budgets and Their Impact upon the Accounting System

The GASB, in one of its basic principles, states 1) An annual budget(s) should be adopted for every government unit 2) The accounting system should provide the basis for appropriate budgetary control 3) A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

In accordance with the principle above, budgets should be prepared for each of the seven fund types used by governmental units. This directive, by itself, does not differentiate governmental from commercial enterprises. What is different, however is the inclusion of budgetary accounts in the formal accounting system for the governmental funds. These are incorporated into the governmental accounting systems to provide *legislative control* over revenues and other resource inflows and expenditures and other resource outflows.

In order to prevent the overspending of an item in the appropriations budget, an additional budgetary account is maintained during the year. The account is called "Encumbrances." When goods or services are ordered, appropriations are encumbered. The "Encumbrances" account does not represent an expenditure, it is a budgetary account which represents the estimated cost of goods or services which have yet to be received. In effect, the recording of encumbrances represents the recording of executory contracts, which is essential to prevent overspending of an appropriation (normally, and illegal act).

Financial Statements for State and Local Governments

The GASB provides for two types of annual reports, the General Purpose Financial Statements, which include the minimum statements required for GAAP and a clean opinion, and the Comprehensive Annual Financial Report (CAFR), which contains a great deal of detail that is helpful to many users.

Accrual basis accounting is recognition of revenues in the accounting period the revenues are earned and recognition of expenses in the accounting period the expenses are incurred. In addition, revenues and expenses have to be measurable in order to be reported. The following funds should use full accrual accounting:

Proprietary Funds

Enterprise
Internal Service

Fiduciary Funds

Nonexpendable and
Pension Trust Funds

All of the funds which use accrual accounting (except Pension Trust Funds) are nonexpendable, i.e., an objective of each of the funds is to maintain capital.

The modified accrual basis of accounting on the other hand, recognizes: 1) Revenues in the accounting period in which they are both measurable and available to finance expenditures made during the current fiscal period 2) Expenditures in the accounting period in which the liabilities are both measured and incurred.

The modified accrual basis is used in the following funds:

Governmental Funds

General
Special Revenue
Capital Projects
Debt Service

Fiduciary Funds

Expendable Trust Funds
Agency Funds

All of the funds which use the modified accrual basis are expendable and do not, therefore, have a capital maintenance objective.

The General Fund is the most significant Government Fund. It accounts for all transactions not accounted for in any other fund. Revenues come from many sources and the expenditures cover major functions of government.

Special Revenue Funds account for earmarked revenue as opposed to many revenue sources which are accounted for in the General Fund. The earmarked revenue is then used to finance various authorized expenditures. Many federal and state grants are reported in Special Revenue Funds.

Capital Projects Funds account for the acquisition and use of resources for the construction or purchase of major, long-lived fixed assets, except for those which are financed by Internal Service, Enterprise, and Nonexpendable Trust Funds. Resources for construction or purchase normally come from the issuance of general long-term debt and from governmental grants.

Debt Service Funds usually handle the repayment of general obligation long-term debt and interest. This type of debt is secured by the good faith and taxing power of the governmental unit. Repayment of internal service and enterprise long-term debt is accounted for in these individual funds. Consequently, the type of debt for which the Debt Service Fund is established usually is the result of issuing general obligation bonds for capital projects.

Internal Service Funds are established to account for the provision of goods and services by one department of the government to other departments within the government on generally a cost reimbursement basis. Uses of Internal Service Fund services are budgeted through the budgets of the user departments.

Enterprise Funds account for activities by which the government provides goods and services which are (1) rendered primarily to the general public, (2) financed substantially or entirely through user charges, and (3) intended to be self-supporting. They are usually established for public utilities, transit systems, golf courses, etc.

Trust Funds are similar to Agency Funds in that each type of fund is used to account for monies held for others, trust funds generally being used when assets are held for substantial periods of time. Trust and Agency do not generally record their budgets formally except for some expendable Trust Funds.

There are three types of Trust Funds: Expendable, Nonexpendable, and Pension. An Expendable Trust Fund is accounted for in the same manner as a Government Fund – modified accrual basis. Nonexpendable and Pension Trust are accounted for as Proprietary Funds – accrual basis.

Fund Balance

Reserve funding that is not available for appropriation or is legally restricted by outside parties for use for a specific purpose. Designated fund balance represents tentative management plans that are subject to change.

